Accepted Manuscript

Time is Money: Rational Life Cycle Inertia and the Delegation of Investment Management

Hugh Hoikwang Kim , Raimond Maurer , Olivia S. Mitchell

PII: S0304-405X(16)30047-2
DOI: 10.1016/j.jfineco.2016.03.008
Reference: FINEC 2648

To appear in: *Journal of Financial Economics*

Received date: 19 March 2015
Revised date: 30 June 2015
Accepted date: 27 July 2015

Please cite this article as: Hugh Hoikwang Kim , Raimond Maurer , Olivia S. Mitchell , Time is Money: Rational Life Cycle Inertia and the Delegation of Investment Management, *Journal of Financial Economics* (2016), doi: 10.1016/j.jfineco.2016.03.008

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Time is Money: Rational Life Cycle Inertia and the Delegation of Investment Management☆

Hugh Hoikwang Kim,* Raimond Maurer, and Olivia S. Mitchell

Abstract

Many households display inertia in investment management over their life cycles. Our calibrated dynamic life cycle portfolio choice model can account for such an apparently 'irrational' outcome, by incorporating the fact that investors must forgo acquiring job-specific skills when they spend time managing their money, and their efficiency in financial decision making varies with age. Resulting inertia patterns mesh well with findings from prior studies and our own empirical results from Panel Study of Income Dynamics (PSID) data. We also analyze how people optimally choose between actively managing their assets versus delegating the task to financial advisors. Delegation proves valuable to both the young and the old. Our calibrated model quantifies welfare gains from including investment time and money costs as well as delegation in a life cycle setting.

Keywords: Portfolio inertia, life cycle saving, household finance, human capital, financial advice

JEL classifications: G11, D14, D91

Hugh Hoikwang Kim (**corresponding author*)
SKK Graduate School of Business, Sungkyunkwan (SKK) University
25-2 Sungkyunkwan-ro, Seoul 03063, Korea
Email: h.kim@skku.edu. Tel. +82 2 740 1535

Darla Moore School of Business, University of South Carolina
Columbia, SC 29208, USA

Raimond Maurer
Finance Department, Goethe University
Theodor-W.-Adorno-Platz 1 (Uni-PF. H 23)
60629 Frankfurt am Main, Germany
Email: maurer@finance.uni-frankfurt.de. Tel: +49 69 798 33647

Olivia S. Mitchell
The Wharton School, University of Pennsylvania, & NBER
3620 Locust Walk, 3000 SH-DH
Philadelphia, PA 19104, USA
Email: mitchelo@wharton.upenn.edu. Tel +1 215 898 0424

☆ The authors are grateful for research support provided by NIH/NIA Grant # P30 AG12836 and NIH/NICHD Population Research Infrastructure Program R24 HD-044964, and the Pension Research Council/Boettner Center for Pensions and Retirement Security at the University of Pennsylvania. The authors also received research funding from the Special Research Fund at the SKK GSB, SKK University, the Metzler Exchange Professor program at the Goethe University of Frankfurt, and the German Investment and Asset Management Association (BVI). They are grateful for comments from Santosh Anagol, Alex Gelber, Itay Goldstein, Andreas Hubener, Dana Kiku, Jialun Li, David Love, David Musto, Stijn Van Nieuwerburgh, Greg Nini, Nick Roussanov, Kent Smetters, Robert Stambaugh, Jeremy Tobacman, Steve Utkus, Jessica Wachter, and Jacqueline Wise. The authors also thank conference and seminar participants at European Conference on Household Finance 2014, American Risk and Insurance Association Meeting 2011, Goethe University, KAIST Business School, Korea University, SKK GSB, Seoul National University, University of Cincinnati and Wharton School. The Wharton High Performance Computing Platform provided an excellent setting for the numerical analysis. All opinions, findings, interpretations, and conclusions represent the views of the authors and not those of the affiliated institutions.

ACCEPTED MANUSCRIPT

Download English Version:

https://daneshyari.com/en/article/10475713

Download Persian Version:

https://daneshyari.com/article/10475713

Daneshyari.com